LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6792 | **NOTE PREPARED:** Jan 10, 2008
BILL NUMBER: HB 1247 | **BILL AMENDED:**

SUBJECT: Taxes on Motor Fuel; Mass Transit Funding.

FIRST AUTHOR: Rep. Austin | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill provides that sales of gasoline are exempt from Sales Tax. The bill also provides for an increase in the Sales Tax rate from 6% to 6.4%. The bill provides for an increase in the Gasoline Tax rate from $0.18 per gallon to $0.25 per gallon. This bill also provides that the additional revenue derived from the increase in the Gasoline Tax rate is deposited in the Local Road and Street Account. The bill allows a county, city, or town to adopt an ordinance to spend 10% of the increased Local Road and Street Account distribution on local or regional mass transit. This bill repeals provisions requiring distributors of gasoline to prepay Sales Tax when transferring gasoline to a retailer.

Effective Date: July 1, 2008; August 1, 2008.

Explanation of State Expenditures: This bill will result in an overall cost savings for the Department of State Revenue (DOR). The DOR will no longer be required to collect and administer the Sales Tax on gasoline (the definition of gasoline used in this bill does not include diesel fuel). The amount of the savings is indeterminable.

Sales Tax on gasoline is collected differently than Sales Tax on other purchases. By statute, retailers are required to prepay the Sales Tax on gasoline. The prepayment rate is equal to the statewide average price per gallon, multiplied by the Sales Tax rate, multiplied by 90%. The prepayment rate is determined semiannually (in June and December) by the DOR, and is limited to 125% of the previous prepayment rate. Retail merchants are then required to file their returns monthly and remit Sales Tax which has been collected on the gasoline, less the amount of prepaid tax.

The bill provides that the DOR must establish temporary rules to facilitate the refund of prepayments made for a reporting period before July 1, 2008, for gasoline that is purchased or shipped for retail sale after June 30, 2008.

This bill will increase the administrative costs of the Department of State Revenue (DOR). The DOR will have to amend the Sales Tax and Fuel Tax forms, as well as update computer software. It is estimated that the increase will be totally offset by the savings realized from the gasoline exemption provided in the bill.

Explanation of State Revenues:

Impact of the Tax Changes in this Bill	**Impact**	
	FY 2009	**FY 2010**
Increasing the ***Sales Tax*** rate to 6.4%	$375.8 M	$385.0
Exempting gasoline from ***Sales Tax***	*decrease* of between ($339.1 M) and ($431.0 M)	
Increasing ***Gasoline Tax*** rate to $0.25	$221.2 M	$221.2 M
OVERALL INCREASE IN REVENUE	b/w $166.0 M and $257.9 M	b/w $175.2 M and $267.1 M

Sales Tax: It is estimated that the impact of exempting gasoline from Sales Tax could be totally offset by the increase in the Sales Tax rate to 6.4%. The table below illustrates the impact of each of these provisions.

Background: The high range of the impact of exempting gasoline from Sales Tax is based on the Energy Information Association's Short Term Energy Outlook estimate of Midwest gas prices (excluding taxes) for CY 2008 and CY 2009. The EIA estimates that Midwest gas prices will be approximately $2.46 after subtracting all applicable taxes. The low estimate represents the loss of Sales Tax if gas prices and gallons sold are approximately the same as the previous three fiscal years. The estimated increase in revenue from increasing the Sales Tax rate to 6.4% is based on the December 13, 2007 State Revenue Forecast.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Gasoline Tax:* Increasing the Gasoline Tax rate from $0.18 cents per gallon to $0.25 per gallon will increase annual revenue by an estimated $221.2 M, based on FY 2007 data. The bill requires all of this new revenue to be deposited in the Local Road and Street Account (LR&S). The bill then allows a city or town to adopt an ordinance appropriating up to 10% of the city or town's LR&S suballocation for local or regional mass transit. The table below shows the statewide impact on allocations of LR&S funds to counties, cities and towns.

Annual LR&S Distributions	
	Add. Revenue (mills)
TOTAL LR&S	$221.2
Counties	$123.3
Cities and Towns	$97.9
10% of Cities and Towns (which may be appropriated local or regional mass transit)	*$9.8*

Background: The revenue in LR&S account is distributed each month by the Auditor of State to units of local government. IC 8-14-2-4 sets forth allocations and suballocations of this revenue. The LR&S receives revenue from the Gasoline Tax, as well as the Special Fuel Tax, and certain license fees. The table below illustrates how LR&S funds are allocated.

TOTAL ESTIMATED ANNUAL LR&S REVENUE INCREASE $221.2 M			
Allocation #1 – the $221.9 M in revenue is distributed to all 92 counties based on the following ratio: Total Passenger Car Registrations in the County divided by Total State Passenger Car Registrations.			
Each county's distribution from allocation #1 is then suballocated to cities and towns as follows:			
Counties with a population > 50,000		Counties with a population < 50,000	
60% of revenues distributed based on population of city or town vs the total county population.	40% of revenues distributed based on city or town street mileage vs total county road mileage.	20% of revenues distributed based on population of city or town vs the total county population.	40% of revenues distributed based on city or town street mileage vs total county road mileage.
This bill then allows a city or town to adopt an ordinance appropriating up to 10% of the total suballocation to the city or town for local or regional mass transit. (An estimated $9.8 M annually)			

Based on FY 2007 data, a one cent increase in the Gasoline Tax generates approximately $31.7 M. A spreadsheet is available in the Office of Fiscal and Management Analysis showing the impact for each local unit of government receiving an allocation from the LR&S.

State Agencies Affected: Department of State Revenue; State Auditor.

Local Agencies Affected: Recipients of the Local Road and Street Distributions.

Information Sources: Bob Lain, State Budget Agency, 317-232-3471. www.eia.doe.gov. December 13, 2007 State Revenue Forecast.

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